

Message Text

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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 5469

INFO AMEMBASSY BONN

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

C O N F I D E N T I A L BRASILIA 3990

E.O. 11652: GDS

TAGS: EMIN, ENRG, BR, GW

SUBJ: FRG-GOB NUCLEAR ENERGY AGREEMENT - URANIUM EXPLORATION

REF: (A) RIO DE JANEIRO 1625 (NOTAL), (B) 75 BRASILIA 7922 (NOTAL)

FOLLOWING TELEGRAM DRAFTED BY AMCONGEN RIO DE JANEIRO, EMBASSY
CONCURS.

SUMMARY: HEAD OF URANGESELLSCHAFT GEOLOGICAL TEAM, WHICH IS INVOLVED IN JOINT VENTURE FOR URANIUM EXPLORATION IN BRAZIL WITH NUCLEBRAS, HAS PRIVATELY ELABORATED ON TERMS OF AGREEMENT AND PROGRESS OF EXPLORATION PROGRAM. HE SAID WEST GERMANY IS ENTITLED TO A PORTION OF ANY PRODUCTION RESULTING FROM DISCOVERIES IN THE AREAS IN WHICH NUCLAM, THE JOINT-VENTURE COMPANY, OPERATES, WHETHER OR NOT BRAZIL IS SELF-SUFFICIENT AT THE TIME. NUCLAM'S CURRENT ACTIVITIES ARE RESTRICTED TO TWO AREAS WHICH, ALTHOUGH HAVING A REASONABLE POTENTIAL FOR URANIUM, WERE NOT URANGESELLSCHAFT'S TOP CHOICES. END SUMMARY.

1. ON APRIL 29 HELMUT FUCHS, THE HEAD OF THE URANGESELLSCHAFT
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GEOLOGICAL TEAM IN BRAZIL, EXPLAINED TO EMBASSY MINERALS OFFICER

SOME DETAILS OF URANIUM AGREEMENT BETWEEN FRG AND GOB AND PROGRESS OF NUCLAM (NUCLEBRAS AUXILIAR DE MINERACAO S.A.). NUCLAM IS JOINT VENTURE COMPANY CREATED BY GOB DECREE LAST DECEMBER 16 IN WHICH NUCLEBRAS HOLDS 51 PERCENT OF EQUITY AND URANGESELLSCHAFT 41 PERCENT. COMPANY WAS FORMALLY LAUNCHED ON MARCH 16 WITH REGISTERED CAPITAL OF CR\$100 MILLION (ABOUT \$10 MILLION) AND AN EXPLORATION BUDGET FOR THIS YEAR OF CR\$22 MILLION (\$2.2 MILLION).

2. NUCLAM'S ACTIVITIES ARE, FOR THE MOMENT, RESTRICTED BY THE DECREE TO TWO AREAS: RIO GRANDE DO NORTE/PARAIBA (38,000 SQ KM) AND PARANA/XANTA CATARINA (35,000 SQ KM). FIELD OFFICE FOR NORTHEAST PROJECT IS BASED IN RECIFE; OFFICE FOR SOUTHERN PROJECT IS IN CURITIBA. BOTH OFFICERS ARE HEADED BY URANGESELLSCHAFT GEOLOGISTS. IN ALL, FIVE URANGESELLSCHAFT GEOLOGISTS (NOT ALL ARE GERMANS) ARE WORKING IN THE FIELD, ALONG WITH ABOUT A DOZEN BRAZILIAN GEOLOGISTS. FUCHS IS NUCLAM'S TECHNICAL DIRECTOR AND IS BASED IN RIO, WITH ONE OTHER FOREIGN GEOLOGIST AND BRAZILIAN ADMINISTRATIVE STAFF. FUCHS SAID NUCLEBRAS AND NUCLAM PRESIDENT PAULO NOGUEIRA BATISTA LEAVES RUNNING OF NUCLAM EXPLORATION PROGRAM IN HANDS OF URANGESELLSCHAFT. FUCHS MENTIONED THAT PRIOR TO COMING TO BRAZIL SIX MONTHS AGO TO HELP ORGANIZE THE JOINT VENTURE, HE WAS WORLD-WIDE EXPLORATION MANAGER OF URANGESELLSCHAFT. HE SAID HE EXPECTS TO RETURN TO THAT POSITION IN ABOUT TWO YEARS, AFTER NUCLAM IS OFF THE GROUND. ASKED HOW HE WOULD RANK IMPORTANCE OF URANGESELLSCHAFT'S PROGRAM IN BRAZIL IN COMPARISON TO REST OF WORLD, HE SAID COMPANY'S PROGRAMS IN US, CANADA AND AUSTRALIA ARE MUCH LARGER.

3. ASKED ABOUT THE TERMS OF THE FRG-GOB AGREEMENT, FUCHS STATED THAT WEST GERMANY IS ENTITLED TO ACQUIRE A PORTION OF YELLOW-CAKE PRODUCED AS RESULT OF ANY DISCOVERIES MADE BY NUCLAM. AMOUNT WOULD DEPEND ON WHETHER BRAZIL AS A WHOLE IS SELF-SUFFICIENT, BUT THAT GERMANY WOULD RECEIVE A PORTION OF NUCLAM'S PRODUCTION EVEN IF BRAZIL HAD NOT ATTAINED SELF-SUFFICIENCY AND, FOR THAT MATTER, EVEN IF NUCLEBRAS OPERATING ON ITS OWN IN REST OF COUNTRY HAD NO PRODUCTION AT ALL. (FYI: WE UNDERSTAND FROM OTHER SOURCES THAT THE PORTION IN QUESTION WOULD

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BE 20 PERCENT IF BRAZIL IS NOT SELF-SUFFICIENT AT TIME. END
FYI.)

4. FUCHS STATED THAT DURING NEGOTIATIONS OF OVERALL FRG-GOB NUCLEAR ENERGY AGREEMENT, GOB DID NOT WANT TO INCLUDE A JOINT PROGRAM FOR URANIUM EXPLORATION AND PRODUCTION. BUT BEING SHORT OF ENERGY RESOURCES, ACCORDING TO FUCHS, THE FRG INSISTED ON THE PROGRAM AND MADE CLEAR THAT THERE WOULD BE NO OVERALL

AGREEMENT WITHOUT IT. IN ITS IMPLEMENTATION, HE SAID, THERE HAS BEEN CONSIDERABLE JOCKEYING FOR POSITION, ESPECIALLY OVER THE SELECTION OF THE AREAS IN WHICH NUCLAM OPERATES. FUCHS SAID THE TWO AREAS EVENTUALLY AGREED UPON BY NUCLEBRAS AND URANGESELLSCHAFT REPRESENT A COMPROMISE POSITION. ALTHOUGH THEY ARE NOT AMONG THE TOP AREAS HE WANTED, FUCHS SAID THEY DO HAVE A REASONABLE POTENTIAL. ONE CONCERN, HOWEVER, IS THAT, ACCORDING TO TERMS OF THE DEC 16 DECREE SPECIFYING THE AREAS, NUCLAM IS NOT ALLOWED TO PROSPECT IN OTHER AREAS UNTIL WORK IN THE TWO PRESENT AREAS HAS BEEN COMPLETED, WHICH MAY TAKE A FEW YEARS. IN ANY EVENT, DURING THAT PERIOD URANGESELLSCHAFT EXPECTS TO GAIN USEFUL EXPERIENCE ON BRAZIL'S GEOLOGICAL ENVIRONMENT AND WILL HOPE FOR THE BUST ON THE RESULTS, WITH EXPECTATION OF NEGOTIATING WITH NUCLEBRAS FOR BETTER AREAS LATER. HE ALSO ACKNOWLEDGED THAT THE EXISTING DECREE MIGHT BE MODIFIED TO PERMIT NUCLAM TO PROSPECT IN OTHER AREAS SOONER.

5. FUCHS EXPRESSED SOME CRITICISM OF THE NUCLEBRAS ORGANIZATION. MUCH OF IT HE RELATED TO ADMINISTRATIVE DEFICIENCIES. SOME OF IT WAS DUE TO TECHNICAL PERSONNEL; HE SAID, FOR EXAMPLE, THAT IF NUCLEBRAS' 80 GEOLOGISTS CAME TO HIM FOR A JOB, HE WOULD HIRE ONLY EIGHT OR SO. FUCHS SAID OTHER PROBLEMS RELATED DIRECTLY TO NUCLEBRAS POLICIES AND POLITICS. HE FELT STRONGLY THAT NUCLEBRAS SHOULD UNDERTAKE MORE JOINT VENTURES FOR EXPLORATION, AS IS PERMITTED UNDER ITS BY-LAWS. BRAZIL IS SIMPLY TOO LARGE, HE SAID, FOR NUCLEBRAS AND JUST NUCLAM TO COVER. HE WOULD EVEN CONSIDER OPENING UP URANIUM EXPLORATION AND PRODUCTION TO ALL COMPANIES, WITH THE STIPULATION THAT IT COULD ONLY BE SOLD TO NUCLEBRAS AT THE WORLD MARKET PRICE. HE SAID, HOWEVER, THAT NUCLEBRAS WOULD NOT BE LIKELY TO FAVOR SUCH A PROPOSAL, GIVEN ITS CURRENT TOTAL CONTROL OVER RADIOACTIVE MINERALS.

6. ASKED HIS OPINION OF URANIUM POTENTIAL IN THE STATE OF
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GOIAS, FUCHS RESPONDED THAT HE DOUBTS THAT THE DISCOVERIES MADE LAST YEAR (REFTEL B) CONTAIN ANY ECONOMIC RESERVES. DEXTER UNQUOTE
JOHNSON

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